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Report on the implementation of the revised budget for 2002, revised budget estimates for the biennium 2002-2003, and report on the level of the operational reserve*

Report of the Executive Director

Summary

The present document contains revised budget estimates for the biennium 2002-2003 and is based on the ad hoc submission of revised budget estimates for 2002 (DP/2002/CRP.10) that were already approved by the Executive Board at its annual session 2002. For ease of reference, document DP/2002/CRP.10 is attached as annex 1 to the present document. The present document is also submitted in response to Executive Board decision 2002/13, paragraph 7. It has been reviewed by the Management Coordination Committee and the Advisory Committee on Administrative and Budgetary Questions.

Total income forecast for 2002 remains at the approved level of $44.3 million, with the administrative expenditure also remaining at the estimated $44 million level approved by the Board at its annual session 2002. UNOPS continues to identify ways to increase income and reduce operating costs, with the objective of achieving an income level for 2002 that exceeds operating expenditure. UNOPS also continues to monitor its financial performance closely.

Total income forecast for 2003 is expected to rise to $44.7 million while administrative budget requirements are projected to be $43.9 million. The $0.8 million projected excess of income over expenditure for 2003 will bring the UNOPS operational reserve to $4.1 million at the end of the biennium.

Elements of a decision

The Executive Board may wish to: (a) take note of the report of the Executive Director on revised budget estimates for the biennium 2002-2003 (DP/2002/33); (b) approve the revised budget estimates for the biennium 2002-2003 in the amount of $87.9 million.

* The collection and analysis of current data required to present the Executive Board with the most up-to-date information has delayed submission of the present document.

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Abbreviations

ACABQ	Advisory Committee on Administrative and Budgetary Questions
ALD	Activities of limited duration
ERP	Enterprise Resource Planning
IFAD	International Fund for Agricultural Development
MCC	Management Coordination Committee
OAPR	Office of Audit and Performance Review
ORG	Operational Review Group
SMF	Staff Management Forum
UNICEF	United Nations Children's Fund
UNOPS	United Nations Office for Project Services

I. Introduction

1. The present document contains the revised budget estimates for the biennium 2002-2003. It derives directly from and is prepared based upon the principles described in annex 1. This revision for the biennium 2002-2003 is submitted in accordance with Executive Board decision 94/32 of 10 October 1994. In accordance with decision 99/16, the present document also includes a review of the level of the UNOPS operational reserve.

2. Pursuant to UNOPS financial regulations, the present budget estimates are submitted through and have been reviewed by the Management Coordination Committee. This document has also been reviewed by the Advisory Committee on Administrative and Budgetary Questions.

II. Revised projections of income and estimated expenditures for 2002

Status of progress against approved budget estimates for 2002

3. Annex I describes in detail the response initiated by UNOPS as a result of the financial situation at the end of 2001 and the exceptional situation facing UNOPS in 2002. The present document does not repeat these already approved measures but focuses instead on an update of the latest progress in implementing the approved 2002 budget, as requested by the Executive Board in its decision 2002/13, paragraph 7.

4. In its decision 2002/13, paragraph 6, the Executive Board approved the 2002 budget comprising a project portfolio delivery of $503.2 million with total income set at $44.3 million and administrative expenditure at $44.0 million. At the end of July 2002, project delivery had reached $320.4 million, or 64 per cent of the target for 2002, which is slightly ahead of the level necessary to achieve the $503.2 million approved for 2002. This compares favourably to the $306.9 million project delivery that was achieved at the same time in 2001, for which the year-end final delivery was $504.7 million. The income generated by project delivery, as of the end of July 2002, amounts to $22.5 million, or 64 per cent of the target, which is also slightly ahead of schedule. IFAD 2002 service income is currently projected to generate $6.4 million in fees. Other service income is on target, with the exception of $0.5 million of rental income that was estimated to be generated as a result of subletting space at UNOPS headquarters. That income estimate has been revised downwards to $0.4 million.

5. Total income generated at the end of July 2002 was $26.9 million, which covers administrative expenditure, as indicated in paragraph 6 below. A detailed mid-year review of delivery and income indicates that overall delivery and income continue to be on track for the achievement of the targets approved by the Executive Board. In the meantime, UNOPS continues its intensive efforts to increase project and service delivery income while monitoring its financial performance very closely.

6. While preparing the administrative budget for 2002 (attached as annex 1) for approval by the Executive Board at its annual session and fully cognizant that staff-related costs account for the major portion of that budget, namely 61 per cent, UNOPS implemented a reduction in personnel, charged against the administrative budget. The savings from this reduction are documented in DP/2002/35/Add.1. In line with recommendations of the Board of Auditors and the Executive Board, UNOPS is engaged in systematic and rigourous budget performance exercises both to control administrative expenditures and monitor income on a monthly basis. At the end of July 2002, administrative expenditure amounted to $26.4 million compared to an income of $26.9 million. Analysis of July 2002 data, however, revealed that salary and post-adjustment movements, combined with a weakening of the United States dollar against other currencies, particularly European currencies, had led to an 7.5 per cent annual increase in staff-related costs as compared to pro forma staff costs used by UNOPS as a budget planning tool. This increase is over and above the 3 per cent inflation factor that was used in the original formulation of the 2002 budget.

7. Detailed examination of this situation and the projected balance for the year indicates that savings anticipated in the 2002 budget may end up being reduced by higher staff-related cost increases of some $800 000

as compared to the approved administrative budget. Examination of income and non-personnel budget components, however, appears favourable. The most recent income estimate deriving from the internal budget monitoring system amounts to $44.5 million, which is $200 000 higher than the estimate included in the original budget submission. Budget allotments issued to individual divisions are also $350 000 lower than the approved budget of $44 million.

8. Should the above scenario materialize, UNOPS expenditure for 2002 would be $44.250 million, that is, $250 000 or one half of 1 per cent over the approved 2002 budget. As this is within the 3 per cent tolerance level applied to UNOPS budgets, it has been proposed that the target of $44 million for the 2002 administrative expenditure be maintained at this stage. UNOPS management is taking every opportunity to defer and reduce expenditure and to generate additional income wherever possible for the 2002 balance in order to accommodate this projected additional expenditure. The consequences of this scenario for the level of the operational reserve are described in paragraph 18.

III. Revised projections of income and estimated expenditures for 2003

9. UNOPS continues to examine the best opportunities to secure the long-term sustainability of UNOPS, including the benefit of continuing to relocate staff closer to its clients and to lower-cost duty stations. In this context, a number of options were considered in the course of developing the revised budget estimates for 2003. In his address to the Executive Board at its annual session 2002, the Executive Director outlined his intention to explore further, with interested Governments, opportunities for relocation or further decentralization of UNOPS offices. UNOPS continues to maintain that relocation to lower-cost duty stations generates significant long-term savings. At this stage, nevertheless, investment and operating start-up costs could not be supported from the UNOPS administrative budget and the option of further relocation and/or decentralization is therefore not considered in the present submission.

10. The revised budget estimates for 2003 are based on the same level and scope of UNOPS operations achieved after the significant staff and other resource reductions put in place in 2002. These estimates also reflect continued focus throughout the organization on achieving revised targets for project and service delivery and income and administrative expenditures. The evolving nature of UNOPS business and clientele requires the ongoing review of business parameters, with the emphasis on increasing income with a sustainable strategy to reduce UNOPS operating costs.

11. The budget for 2003 has been elaborated on the basis of the following:

(a) The critical capacity of UNOPS to respond adequately to United Nations clients and their programme countries in conformity with the UNOPS self-financing business model;
(b) The commitment of UNOPS to replenish the operational reserve in the medium term;
(c) The efforts of UNOPS to diversify further its clientele on the basis of a client-management structure;
(d) The commitment of UNOPS to introduce a revised performance management system that would establish a link between performance and compensation, thereby intending to boost performance and increase delivery while remaining within established United Nations system human resources norms;
(e) The continuing review by UNOPS of income received from clients to ensure full cost-recovery, in accordance with its self-financing principle and as requested also by the Executive Board in its decision 2002/13, paragraph 17.

12. For 2003, project delivery has been set at $513.0 million, representing an increase of $9.8 million over the approved 2002 estimates. The 2003 project delivery target is the result of the most rigourous review process achievable at this stage, based on the same fundamental principles that were established to determine the 2002 estimates. The 2003 target is based on a project portfolio derived from a number of sources: (a) existing budgets for 2003 from signed projects already being implemented by UNOPS; (b) estimates of delivery derived from projects in the course of approval; and (c) projects still being negotiated and about to be acquired. The current

approved budget on hand in UNOPS for delivery in 2003 totals $290.1 million. Project acquisition reached $327 million at the end of July 2002. In addition, approximately $190 million of the existing 2002 budget is expected to be rephased into 2003.

13. The income generated by the estimated 2003 project delivery is forecast to be $36.4 million, compared to $35.4 million in 2002, at an overall average income rate of 7.1 per cent.

14. Service income is estimated at $6.9 million compared to $7.8 million in 2002. Fees earned from the services provided to IFAD are the single biggest element of this income and are projected at $6 million for 2003 compared to $6.4 million in 2002. This figure reflects the current level of services requested by IFAD for 2003. Discussions will be initiated shortly on the level of fees for IFAD services for 2003 with a view to adjusting fees to cover increased costs incurred by UNOPS in the provision of those services. Other service income is reduced slightly from $1.1 million for 2002 to $0.9 million for 2003, reflecting the changing level of services required by the clients involved.

15. Other income is estimated at $1.4 million, compared to the existing target of $0.5 million in 2002, which is based on the existing and planned agreements with a number of United Nations organizations for the subletting of office space and the provision of associated services at UNOPS headquarters. Other sundry and occasional income, including interest income, is also included in this $1.4 million total.

16. The level of staff resources that UNOPS has included as the basis for the 2003 budget estimates remains at the significantly reduced level achieved as a result of the 2002 budget reduction exercise. Notwithstanding the significant reduction of staff, administrative expenditure for 2003 is estimated at $43.9 million, only a slight decrease of $0.1 million or less than 1 per cent over the approved estimates for 2002. The three factors determining budgetary requirements in 2003 include: (a) the movement in salaries and post adjustments over 2002; (b) the weakening of the United States dollar against a number of other currencies; and (c) the need to invest in information and communication technology as a consequence of the decision by UNDP to implement a new ERP system effective 1 January 2004.

17. The investment in 2003 for the UNOPS contribution to the UNDP ERP project – or any alternative UNOPS may decide on – amounts to $1 million, distributed through a number of expenditure lines but mainly concentrated in hardware and software investment and support costs, contracts and training. The major areas of expenditure relating to the reimbursement to UNDP for the provision of country office, central support and audit services and the reimbursement of United Nations central services are maintained at the level approved in the 2002 budget.

Table 1. Revised projections of project expenditures and income for the biennium 2002-2003, compared with figures for the biennium of 2000-2001
(*in millions of United States dollars*)

	Actual 2000-2001	Approved 2002-2003 estimates	Approved revised 2002 estimates	Proposed Revised 2003 estimates	Revised Estimates for the biennium 2002-2003
Delivery – projects	975.8	1,135.2	503.2	513.0	1,016.2
- services	388.0	-	-	-	-
Total delivery	1,363.8	1,135.2	503.2	513.0	1016.2
Income					
Income from implementation of project portfolio	74.6	84.0	35.4	36.4	71.8
Income from "services only"	13.6	15.8	7.8	6.9	14.7
Other income	7.4	2.5	1.1	1.4	2.5
Total income	95.6	102.3	44.3	44.7	89.0
Administrative expenditure					
Recurring administrative expenditures	105.0	100.5	44.0	43.9	87.9
Non-recurring administrative expenditures	3.0	-	-	-	-
Total administrative expenditures	108.0	100.5	44.0	43.9	87.9
Movements on the Operational reserve					
Operational reserve brought forward	17.4	12.0	5.0	3.3	5.0
Direct charge to operational reserve (to cover estimated staff separation costs)			-2.0	-	-2.0
Transfer to operational reserve	-	1.8	0.3	0.8	1.1
Transfer from operational reserve	(12.4)	-	-		-
Operational reserve carried forward	5.0	13.8	3.3	4.1	4.1

Table 2. Revised budget estimates for 2002-2003
(in thousands of United States dollars)

	Object of expenditure	Actual Expenditure 2000-2001	Approved estimated Expenditure 2003	Approved revised estimated Expenditure 2002	Proposed revised Estimated expenditure 2003	Revised Estimated expenditure 2002 –2003
A10/H10/H12	Salaries	32,643	18,421	15,331	15,600	30,931
A12/H14-61	Common staff costs	17,147	8,796	8,264	8,425	16,689
B10	Temporary assistance	4,590	2,008	1,305	848	2,153
B12/	Activities of limited duration (ALD)	7,088	4,514	3,093	2,135	5,228
B10	Overtime	287	168	41	50	91
B12	Consultants	4,917	2,732	1,511	1,511	3,022
B14	Training	788	389	26	176	202
B18	Staff travel	4,820	2,167	1,091	1,006	2,097
B16	Contracts	2,212	1,087	584	834	1,418
B16	System development contracts	105	445	-	-	-
B20	Printing and publications	182	64	0	29	38
B22	Rental and maintenance-premises	9.348	4,635	4,623	4,623	9,246
B26	Rental and maintenance of equipment	337	393	179	179	358
B28	Communications	2,271	1,808	1,029	1,029	2,058
B30	Mainframe hardware	41	85	1	-	1
B32	Miscellaneous services	1,551	500	374	374	748
B34	Maintenance of PC hardware	23	132	233	233	466
B40	Office supplies	875	343	201	201	402
B42	Furniture and equipment	479	234	43	43	86
B44	Computer systems equipment	799	822	173	743	916
C10	Hospitality	41	25	4	4	8
	Subtotal	90,544	49,768	38,115	38,043	76,158
B50	Services provided by UNDP country offices and other United Nations organizations	5,706	2,966	2,458	2,458	4,916
B50	Reimbursement to UNDP					
	- Services provided by UNDP/OAPR	1,841	1,000	793	793	1,586
	- UNDP central support services	4,094	1,724	1,398	1,398	2,796
	- United Nations central services	2,844	1,000	1,206	1,206	2,412
	Subtotal	14,485	6,690	5,855	5,855	11,710
	Information system project	3,006	-	-	-	-
			-	-	-	-
	Subtotal	3,006	-	-	-	-
	Grand total	108,035	56,458	43,970	43,898	87,868

IV. Report on the level of the operational reserve

18. At the end of the biennium 2000-2001, the UNOPS operational reserve was reduced to $5 million (annex I). The direct charge to the operational reserve to cover estimated staff separation costs in 2002 has been reduced to $2 million, as compared to the $2.2 million indicated in document DP/2002/CRP.10, to cover costs of separating staff following the budget-reduction exercise. The revised 2002 budget approved by the Executive Board also envisages a surplus of $300 000, which would be added to the reserve by the end of 2002. In light of the circumstances described in paragraph 8 above, this might not materialize, as there is even the possibility of a further reduction estimated to be on the order of $250 000 in the level of the operational reserve. In 2003, the situation is expected to improve, however, with an anticipated contribution to the operational reserve of $0.8 million, bringing the reserve level to a projected total ranging from $3.5 to $4.1 million at the end of the biennium. In the case of the latter projection (4.1 million), the operational reserve balance would be 19 per cent of $21.6 million, calculated using the current operational reserve formula. The two main goals pursued in the development of the revised budgets for 2002 and 2003 have been to stabilize the financial situation of UNOPS and to lay a sound foundation for the continuing sustainability of UNOPS. The gradual replenishment of the operational reserve is an essential component of this process.